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I/W Bladen

EMPLOYMENT AND INCOME

with Special Reference to

THE INITIAL PERIOD OF RECONSTRUCTION

Presented to Parliament by The Minister of Reconstruction

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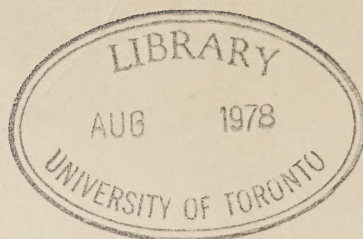


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FOREWORD

The ultimate aim of all reconstruction policies is the extension of opportunity, welfare and security among the Canadian people. Reconstruction must start from the circumstances which result from nearly six years of war; circumstances in which, at the peak, not far from half of the Canadian people derived their occupation and their incomes directly, or indirectly, from government expenditures. The program of reconstruction is, therefore, not a simple matter of striking out for new goals, but a complicated task of combining the demobilization of the armed services and war industry with the rebuilding of an ampler and more stable Canadian economy.

Comprehensive provisions have been made for the demobilization and re-establishment of the members of the armed forces. These provisions will depend for their success on the conditions of civilian life, in which such persons are finally re-established, and particularly on the availability of employment or other gainful occupation.

The central task of reconstruction, in the interest of the armed services and civilians alike, must be to accomplish a smooth, orderly transition from the economic conditions of war to those of peace and to maintain a high and stable level of employment and income. The Government adopts this as a primary object of policy.

This goal cannot be achieved by legislation alone, nor by a single device or plan. In this, it is like the wartime stabilization program. Its attainment will require the effective working of a number of compatible policies, all directed to the same end, and each contributing to the success of the others. It will not be enough that it is an object of government policy. It must be an object of national endeavour. The active co-operation of all governments and groups in the country will be essential to success.

In setting as its aim a high and stable level of employment and income, the Government is not selecting a lower target than "full employment". Rather, the Government is mindful that employment and incomes will be subject to fluctuations in the sphere of international trade, which cannot be wholly and instantaneously offset, and that

seasonal fluctuations, resulting from climate and buying habits, are not to be overcome without much patient and resourceful work. The Government is inaugurating policies which break new ground, and is confident that these policies, with full public understanding and support, will achieve, in the immediate post-war period, satisfactory results of decisive importance. In later years, as experience grows, they can be made to yield ever-improving results which will mark a new era in Canadian development.

The specific application of reconstruction policies is set out in this paper in respect of Stage 2 of the war only, as this is the period of immediate urgency and is likewise a period concerning which it is possible to speak with a greater degree of certainty. Stage 2 of the war is the stage beginning at the cessation of hostilities in Europe and extending to the time when complete and final victory has been won in the Pacific. During Stage 2, war expenditures will continue at a high level while those reductions in the armed forces and war industry, and the beginnings of reconstruction, which circumstances permit and require, are being carried out. During this period, the Dominion Government, under its wartime powers, will have the central responsibility and authority for initiating and carrying out reconstruction policies, as well as for the continued prosecution of the war.

For the succeeding period, when final victory has been achieved and when the full long-term policies of reconstruction will be put into effect, it is impossible at this time to lay down detailed policies with the same definiteness. Concentration of attention and effort on the continuing problems of war and the impending problems of Stage 2 of the war have imposed limits on the detailed work which could be done on later programs. Policies will be vitally affected by the international economic arrangements which can be achieved and equally by the financial and administrative agreements reached at the Dominion-Provincial Conference. It is possible, however, to set out the broad lines of long-term reconstruction policy which the Government proposes to follow.

I The Employment Problem

As of June 1, 1944, it is estimated that the total number of people in remunerative occupations, including service in the armed forces, but excluding women in agriculture, was 5,016,000, as compared with 3,693,000 in 1939. Out of the larger number enlisted during the war, the number in the armed services at that time was 784,000, and those in non-agricultural war industry numbered 1,055,000, or 1,839,000 people whose duties were directly connected with the prosecution of the war and would cease with it.

These 1,839,000 persons had been drawn, on the one hand, from the natural growth of population, from the ranks of married and other women not previously seeking employment, and from the unemployed. On the other hand, they had been withdrawn from agriculture, from non-agricultural civilian industry and from the student population.

Even on the assumption that a substantial number who have left agriculture may not return to it, these latter categories, at the levels of June, 1939, would re-absorb rather more than 600,000. Further allowance must be made for an abnormal number of retirements at the end of the war, for a number of married women who will wish to withdraw from employment, for those who will remain in the armed forces, for some increase in the student population over the level of 1939, and, in view of the extreme scarcity of manpower during the war and the highly seasonal character of some of our industries, some necessary increase over the wartime level in the number of persons not at work on any one day. Without attaching precise figures to each of these categories, it is safe to say that they will include more than 350,000 persons and that the employment of less than 900,000 persons over the level of 1939 would provide a high level of employment for the population of June, 1944. As each year passes, this figure will be increased by about 60,000 by the natural increase of population.

At present, these additional jobs, and more, are provided by government war expenditures, which will be curtailed just as soon as the requirements of war permit. The Government does not believe it to be either desirable or practicable to look to the expansion of government enterprise to provide, to any large degree, the additional employment required. It follows that a major and early task of reconstruction is to facilitate and encourage an expansion of private industry, including primary with other industries.

The full increase in civilian employment will be neither required nor possible until after victory has been won in the Pacific. Initial steps toward achieving it must be taken in Stage 2 of the war. While meeting the full requirements of Canada's contribution to victory in the Pacific, it will be possible, in the view of the Government, to release some part of our armed forces and some part of the workers and capacity in war industry. The rate of release will be governed by the exigencies of war. For the manpower and resources so released, many uses will compete. The Government proposes that they should be directed

- (1) to contributing, through international arrangements, to the relief and rehabilitation of devastated countries;
- (2) to the maintenance and resumption of exports to our historic markets and, as supplies and shipping permit, to the development of new continuing markets;
- (3) to the re-conversion of industrial capacity released from war use and to the carrying out of desirable industrial expansion and modernization;
- (4) to the replacement and modernization of the equipment of agriculture and other primary industries and to the provision of additional facilities for production and marketing services;

- (5) to providing for as large a housing program, both rural and urban, as available labour and materials will permit;
- (6) to providing for increases in consumer goods produced for the civilian market, as the demobilized armed forces pass into the civilian population, and, as circumstances allow, to meet deferred civilian demand.

In addition, it will be necessary in this period to initiate plans and programs to provide over later years for the successful pursuit of policies directed to the attainment of high and stable employment and income.

None of these objectives can be given any absolute priority over others. In the interest of employment and welfare, a balance must be preserved among them.

It is the view of the Government that the requirements of these competing uses in Stage 2 of the war will exceed the amounts of materials and labour which can be made available. Wartime policies of economic stabilization and control over scarce materials and productive capacity will continue to be necessary to ensure not only the effectiveness of the war effort but an orderly transition to peacetime employment.

It is clear, however, that, even with over-all demands unsatisfied, there will be dislocations and unavoidable delays in transition, resulting at the same time in surpluses of some products and shortages of others. The termination of war contracts cannot affect all communities equally and simultaneously. Our transition from peace to war was not accomplished without dislocations, and the transition from war to peace cannot avoid them entirely.

II. The Sources of Employment and Income

Remunerative employment and income in any economy are provided by the expenditures which are made. These expenditures are best classified according to the channels through which the expenditures flow, viz., (a) export trade, in which the decision to spend is made outside the country; (b) private investment in plant, equipment and other durable goods and goods in stock, in which the decision is governed largely by prospective earnings in relation to cost; (c) consumption expenditures, the level of which is mainly dependent on the level of incomes; (d) public investment in useful works for improving the productiveness of resources, and the welfare and opportunities of the people. Public expenditures for current goods and services also provide employment, but cannot to any large degree be determined with reference to the needs of employment, except in terms of reasonable stability. In maintaining a high and stable level of employment and income, the Government proposes to use appropriate means to influence expenditures in all these channels with particular emphasis on those which are most susceptible of encouragement and control.

A higher degree of productive efficiency is necessary to maintain the desired level of income and a correspondingly high standard of living. Efficiency and direction in production will have a very important bearing upon the employment level which can be maintained, and this in turn involves research and technical education. Business management will be called upon to apply wartime experience in attaining new levels of efficiency and to secure larger production and greater employment through passing on to the consumers and other purchasers in the form of lower prices the savings thus made. Labour, which will benefit most from high levels of employment, will make an essential contribution to the solution of the postwar problem by assisting management in making high labour earnings compatible with low costs through skilful, abundant and efficient production.

In the four sections of this paper which follow, the means which the Government proposes to use to influence expenditures in each of these channels are explained. First, they are set out specifically in respect of Stage 2 of the war. Second, for the succeeding period, the broad lines of long-term policy are laid down. Detailed measures, in addition to those which Parliament has already enacted, will be planned to give effect to these policies, in the latter period, as over-riding international and national decisions are reached.

III. Export Trade

Canadian employment and income have, in the past, been highly dependent on export markets. In agriculture, and the other great primary industries, the dependence has been direct and obvious. Where it has been indirect, it has been none the less real.

During the war, export shipments, financed in part by the Canadian Government, have become highly abnormal in size and composition. After the war, so high a level of export shipments will be neither possible nor desirable. Nevertheless, a relatively high level of export trade will be vitally necessary. A low level of export trade might not ultimately defeat the attainment of high employment, but it would involve painful re-organization among our industries, costly delays, and reduced standards of living.

Having regard to the structure of Canadian industry, the desired levels of employment and income, and the low level of export trade before the war, the Government considers that a figure of not less than one and three-quarter billion dollars annually at current prices for merchandise exports and non-monetary gold is a practical and desirable target for post-war exports. This would be about one-half our current swollen wartime exports, about 60 per cent above the pre-war level in dollar value, but only about 15 per cent higher in the amount of goods exported.

(a) *Export Trade in Stage 2 of the War*

In Stage 2 of the war, the war requirements of the United Nations will continue at a high level. In addition, there will exist abroad great need for Canadian and other exports. The relief, rehabilitation and reconstruction needs of countries devastated by war will be extensive. An unsatisfied import demand in other countries has been deferred while goods and shipping space were unobtainable. Export capacity in all countries at war can be released only gradually.

The problem of the level of exports, other than munitions of war, in this period will be one of supply and of finance.

Financial provision for some exports has already been made through the United Nations Relief and Rehabilitation Administration. The Government proposes to recommend the continuation of Mutual Aid to United Nations, where necessary, until the end of the war in the Pacific. Under the Export Credits Insurance Act, the Government is authorized to extend and guarantee credits to other governments for financing Canadian exports, and this authority will be used, in so far as supplies permit, to restore and maintain historic markets and develop new ones.

For certain of our exports, especially in food products, wartime contracts are being continued into Stage 2 of the war. Wartime collaboration in the allocation and shipment of products in short supply will be continued through the Combined Food Board, the Combined Production and Resources Board and the United Maritime Board.

Changes in requirements or dislocations of trade may affect adversely the markets for particular products. To meet such contingencies the Agricultural and Fisheries Price Support Acts will be used to safeguard the primary producer against the penalties of sudden changes and dislocations.

Within the limits which the continuing war prescribes, the final period of the war must be used to begin the re-establishment of Canadian non-war export trade on a dependable and expanded basis. Equally, since dependable trade must ultimately be an exchange of goods for goods, the period must be used to build up our imports and the exporting capacity of other countries so that we may ultimately receive imports in payment for our exports.

For its part, the Government is prepared, as rapidly as circumstances permit, to facilitate, through its wartime controls and otherwise, the re-establishment of peacetime markets for Canadian exports. The Commercial Intelligence Service, which has been drawn on heavily for war duties, is being re-established, as rapidly as possible, as the instrument of vigorous and expanded trade representation.

Initiative, resourcefulness and far-sighted planning will be necessary, on the part of export industry, and of industry which hopes for export markets, in overcoming the initial problems of resuming interrupted trade relations and developing new ones, and establishing their competitive position and the quality and continuing acceptability of their products.

(b) *Problems of Post-War Export Trade*

The Government is looking to an expansion of total world trade, within which other countries as well as Canada can increase their exports. The expansion of Canadian exports will be one phase of an expanded Canadian economy which will require for its use greatly increased imports. The expansion of exports is not looked on as a means by which unemployment is to be transferred from this to other countries, nor is the contraction of Canadian imports any part of the Government's employment policy.

The conditions under which post-war trade can reach higher levels than before the war are not, in any large degree, under the direct control of the Canadian Government. They must be achieved by collaboration with other governments, and particularly, in view of the direction of our trade, with the governments of the British Commonwealth and of the United States. The great wartime increase in the output and exchange of goods was also dependent on close collaboration among these governments. Post-war collaboration along equally bold and imaginative lines is essential if expanded world trade is to re-inforce domestic employment policies and contribute to freedom from want.

International security and freedom from threat of war are the first objects of collaboration and are essential pre-requisites of international economic prosperity.

The Government has pressed and is continuing to press actively for a wide collaboration in the reciprocal reduction and removal of trade barriers, especially trade barriers of an arbitrary and discriminatory type. Agreements must be reached at an early date so that a dependable framework may be set up for the re-conversion of war industries in all countries and so that vested interests may not become entrenched in wartime trade restrictions. Having regard to the widespread character of our trade, the Government attaches special importance also to the re-constitution of multilateral trade on a firm basis and arrangements under which the proceeds of our exports may be spent wherever we desire to obtain our imports.

It is with these objects in mind that the Government has participated in the development of the plans for the International Monetary Fund and the United Nations Bank of Reconstruction and Development on which agreement among experts was reached at Bretton Woods in July last.

The Monetary Fund plan would assure comparative stability of exchange rates and, where change was desirable, would substitute for competitive depreciation of exchanges an orderly process of change following international consultation. It would outlaw the discriminatory currency practices which turned trade into economic warfare. When it was fully in operation, it would assure the convertibility of the proceeds of our sales abroad into whatever currencies we required for our current needs. It would give to each member country for the purposes of its

current balance of payments an assured, though limited, line of credit to serve as a buttress to policies directed to the expansion of employment.

The regular transfer of capital from surplus to deficit countries for purposes of reconstruction and development is essential to the expansion and stability of international trade. The Bank of Reconstruction and Development would provide through an international institution for a needed revival of international investment.

In the interest of Canadian and world prosperity and of peaceful collaboration among nations, the Government endorses these plans and hopes that Parliament will in due course approve the draft agreements. In reaching this view, the Government is mindful of the possibility that Canada might, as a member of both institutions, occupy the position of a "creditor" nation.

Officials of the Government have participated in preliminary discussions looking to agreements which would assure greater stability in international markets for food and raw materials and in equally preliminary discussions concerning international private agreements commonly known as cartels. These discussions will be pursued actively with the object of reaching agreements which will contribute to the stability and welfare of this country as of other countries.

In pressing for international arrangements which would permit and encourage the expansion of world trade, the Government is impressed not only with the importance of trade from the point of view of the Canadian economy, but is also convinced that a high degree of freedom of trade is thoroughly compatible with, and necessary to, a balanced program for promoting a high level of employment and income.

The above are proposals, in varying stages of discussion and agreement, for establishing enduring international economic arrangements under which the nations of the world might share prosperity and plenty rather than poverty and depression. Rapid progress must be made in reaching agreements on these lines if temporary expedients to meet immediate problems are not to thwart long-term solutions.

Such long-term agreements will not, in themselves, however, meet fully the international economic problems which will confront the world in the transition period following final victory in the Pacific. Our Allies whose territories have been over-run by the enemy and the United Kingdom, which has spent its substance without stint in the common cause, will face very difficult balance-of-payments problems when Lend-Lease and Mutual Aid come to an end with the close of the Pacific War. The Government is concerned lest these difficulties should lead to the establishment, even on a temporary basis, of currency or trade *blocs* applying discriminatory treatment to their trade with other countries. Such a development would contribute to economic disorder, and hamper economic recovery throughout the world. The problems which give rise to these possible developments are not to be solved by the nations concerned, acting alone or in exclusive association with the other countries

sharing these particular trade difficulties, but by international collaboration as far-sighted as that undertaken during the war. Convinced that these countries will again establish their trade and industry and that our historic peacetime trade with them can be re-established, the Government is willing to extend to such countries, to enable them to accomplish this transition, adequate credits to finance, to the degree necessary, their import requirements from Canada. In the view of the Government, appropriate terms for repayment of these credits would recognize unequivocally the dependence of such international debt payments on the expansion of world trade and ample markets for the exports by which credits must be repaid.

The Government is prepared to press through collaboration with other Governments for stable solutions to this and related problems.

IV. **Private Investment in Canada**

Export trade has been the greatest dynamic force influencing the level of national income and employment in Canada. Next in importance is the investment of private capital in industrial and commercial buildings and equipment, goods in stock, power and transportation facilities, exploration and development of natural resources, and housing. In the past, the amount of such investment has been closely related to the volume and profitability of our export trade, but it need not be so fully dominated by export trade in the future.

(a) Private Investment in Stage 2 of the War

During the war, both private and public capital expenditures have been largely absorbed in equipping war production and the armed forces. In terms of post-war needs, there is an abnormal amount of capital and maintenance expenditures to be made as soon as labour and materials are available. In the period immediately following the European War, it will be necessary to reduce the barriers to such expenditures, facilitate those which are of the greatest urgency and safeguard them against an inflationary boom which would bring them to an abrupt and abortive conclusion.

The Government, through the Department of Reconstruction, will encourage and assist the speedy conversion and expansion of our industries, giving special attention to those localities which have depended most on war production and in which the post-war adjustment will be greatest. There will not be, in Stage 2 of the war, all the materials and particular categories of labour required to do all that people will desire accomplished, but, within this limitation, the assistance and controls at the disposal of the Government will be used to facilitate private investment in this field, having due regard to the desirability of stable as well as high employment.

Faced with continuing war expenditures, the Government has not been able to synchronize the reduction or discontinuance of wartime taxation with the beginning of projects for conversion and expansion. Therefore, amendments proposed in the Budget of 1944, and since enacted, provided for some substantial relief of investment and maintenance expenditures as such from the effects of wartime taxation. The extension of the privilege of writing back or carrying forward losses allows business firms to approach more nearly to an average-profit basis for taxation purposes. Provision for writing back to the profits of a war year one-half the maintenance expenditures incurred during a designated post-war year, will provide a definite incentive to make good all deficiencies in maintenance. A further and more important provision has been made. In respect of new investment in industrial plant and equipment, the business taxpayer may select a rate of depreciation not less than one-half and not more than double the normal rates. This provision will allow business enterprises a fair chance of recovery of their capital newly invested, even though wartime rates of profits taxation should be in existence at the inception of the project. There is in these provisions assurance to business that, pending the time when it is possible to reduce wartime taxation, new investment, on which we must depend in large degree for expanded employment, will not encounter fiscal penalties.

Having regard to prevailing congestion and the needs of returning veterans, the highest importance will be attached also to housing. The National Housing Act, 1944, makes very complete provision for financing, at lower rates than ever obtained in Canada before, housing for homeowners and for tenants, low rental housing projects, houses on farms, and modernization and improvements. For war veterans, this is supplemented by post-war credits which may be used to provide two-thirds of the cash equity required to build or buy a home. During Stage 2, all who wish to build homes for themselves or for rent to others may not be able to do so because of continuing shortages.

Subject to war requirements, the Government plans to encourage and use its wartime controls to assist in the production of material and equipment for a total program of not less than 50,000 units in the first full construction year following the end of the European war. This figure will fall short of what is desirable but it will probably be as high as labour and materials can be found for in that period. As in other fields of reconstruction, the Government will direct supplies to those communities which, by reason of the decline of specific types of war production, have the workers to use them.

This immediate period, when only a limited housing program is possible, should also be used to carry out the surveys which are basic to community planning, establish the plans, and agree on the methods for carrying out soundly conceived housing and slum clearance projects. Here the initiative must rest in large degree in the local communities, the Government standing ready to give technical assistance and to provide

substantial grants for slum clearance and generous assistance in the financing of well-located and properly managed projects which provide good housing at low rentals. Research and experiment in the use of materials and in the reduction of costs must also be hastened in this period.

In attaining its housing objective, the Government will seek the co-operation of local government and of labour and management in the construction industry.

(b) Private Investment after the War

The decision to invest private funds in capital goods will depend on the businessman's view of the prospective margin of profit to be made on the investment. The demand for consumer goods will be high and everything which the Government is doing, and plans to do, to enlarge external markets and increase and stabilize consumer income, will contribute to the prospective profitability of new investment. Buildings and equipment will be worn out or obsolete. New products and new processes will require new capital investment.

One object of the Government's stabilization policy has been to keep down costs and achieve a post-war position in which the cost of new investment in buildings, equipment and materials would not be a barrier to employment.

The Government recognizes that wartime taxation, both in its form and rates, is discouraging to new investment. It was deliberately designed to be discouraging in order that more resources could be used for the purposes of war. Because war expenditures are so inflationary in effect, wartime taxation must be restrictive and deflationary. After the war, a quite different taxation policy will become an appropriate part of policies directed to the maintenance of employment and income. The Government proposes not only to reduce taxation as rapidly as possible but to develop its fiscal policy so as to encourage the increase of private investment to a high and stable level. It is proposed particularly to eliminate or minimize taxation which contributes to a higher level of production costs.

The Government desires and expects that low interest rates will continue after the war. It proposes to pursue a monetary policy which will encourage, through low interest rates, the investment of funds in productive capital contributing to employment..

The sources of credit within the country are ample to finance an expansion of investment. To provide credit, however, for the establishment and expansion of industrial enterprises, in circumstances in which lending institutions have hitherto been unable to provide adequate financing, the Industrial Development Bank has been established. Its facilities are of particular importance for small and new enterprises on the development of which much future employment will depend.

The improvement of buildings and equipment on farms for increasing productive efficiency and adding to the amenities of farm life is a field of private investment to which the Government attaches especial importance.

Maintenance of farm incomes will be the most effective encouragement to this type of expenditure. To provide credit, where needed, on reasonable terms, the Farm Improvement Loans Act has been passed providing through the chartered banks, under limited government guarantee, loans for a wide range of farm improvements.

In the field of housing, expenditures have been deficient over the past fifteen years, and there is need, as soon as the exigencies of war permit, for investment in housing on a scale far exceeding the immediate pre-war levels. War savings and post-war credits, the greater assurance of steady employment, family allowances and the facilities of the National Housing Act will enable many thousands to build their own homes. To assist in slum clearance, provision is made in the Act for direct grants to municipalities of half the net cost. Life insurance companies and other financial institutions have been empowered to build and own rental housing projects, with suitable guarantees for the protection of policy-holders. Locally organized limited-dividend corporations desiring to build rental projects to meet the needs of those earning low incomes may obtain all but a small fraction of the capital they require from the Government.

The effort to attain a high post-war level of employment and income must be a national and not merely a government effort. The Government will make every effort to create by all its policies favourable conditions within which the initiative, experience, and resourcefulness of private business can contribute to the expansion of business and employment.

V. Consumption

The amount of goods and services at present being consumed by civilians is well above the level of 1939. This high level of consumption has latterly, however, been kept up at the expense of inventories. It is much below the level which present incomes would maintain were it not for shortages of materials and labour, the pressure of taxation, and insistent need for saving for Victory Bonds. With the release of labour and materials from war demands, we may expect a substantial increase in consumption expenditures which will be reinforced temporarily by the need to replenish depleted trade inventories. The continuance of this level of consumption expenditures will depend on the maintenance and distribution of incomes.

(a) *Consumption Expenditures in Stage 2 of the War*

In this period, consumption expenditures may be expected to rise to the full degree to which goods and services can be made available. The re-absorption of the men and women of the Armed Forces into the civilian population will in itself call for greater production of civilian consumer goods. The many financial provisions for their re-establishment will add substantially to expenditures on consumer goods.

Indeed, the danger in this period, as at present, is that consumption expenditures will tend to outrun our immediate capacity to put on the market the goods and services desired. Every effort will be made, consistent with meeting other requirements, to facilitate the maximum increase in supplies, but it cannot be anticipated that shortages of consumers' goods will disappear on the cessation of hostilities in Europe.

Measures whose prime object is to stimulate consumption expenditures will not be appropriate to this period of the war, but there are possible dislocations, related to demobilization and international trade, against which incomes require protection. Such dislocations and delays may occasion a fall in some incomes. It will be necessary to prevent such declines from becoming cumulative and to safeguard low family-incomes especially.

Parliament has enacted statutes which, aside from their long-term effects, will go far in meeting these needs. Under the Unemployment Insurance Act, 1940, which came into effect when employment was rising, wage-earners have acquired rights to benefits of substantial duration in periods of unemployment. A fund of over \$250 million has been built up. In the period of conversion of war industry, when some dislocation and loss of work will be unavoidably associated with the transfer of workers to new jobs and other localities, benefits paid under the Act will to an important degree maintain consumption expenditures and maintain employment in the industries producing consumption goods and services.

The Family Allowance Act, 1944, the purpose of which is to promote the well-being of children, provides for substantial payments in respect of children up to 16 years of age. These payments will begin in July, 1945, a date which it is hoped will not be greatly before the beginning of Stage 2 of the war. They will augment the incomes of families in the lower-income groups, and will provide the means for maintaining or increasing the consumption of these groups. The supplementary effect which they will have in increasing or maintaining employment will be evidence that what is in the first instance a transfer of income will be ultimately paid for, in substantial part, out of an increase in income.

The Agricultural and Fisheries Price Support Acts, mentioned earlier in this paper, will to a degree underwrite consumption and other expenditures against the contingency of particular dislocations in export trade.

The deferment of purchases during the war, the large accumulation of individual savings, some part of which is destined to reappear as consumption expenditures, and the measures already taken to augment low family-income and those incomes interrupted by unemployment or dislocation of export trade will give strong support to consumption expenditures during Stage 2 of the war. This will necessitate continued vigilance and careful management lest the pressure of expenditures on markets should result less in increased civilian employment than in sharply rising prices.

(b) *Consumption Expenditures After the War*

The deferred demand for consumption goods, if not neutralized by price inflation, will continue to influence consumption expenditures until well after the war is ended. The measures for supporting and stabilizing such expenditures will continue to operate.

The Government has given support to the development of additional social security measures, and has indicated willingness to institute contributory old age pensions and health insurance, as soon as financial and administrative arrangements with the Provinces can be agreed upon. Under the Pensions Act, equitable pensions are provided for disabled veterans and for the dependents of members of the armed forces who have lost their lives in the war. In addition to their great direct results in human security and welfare, such measures will have important supplementary effects in stabilizing and enlarging consumption expenditures and the employment which is derived from them.

Much has been learned during the war of the vital importance of improved nutrition. In the years after the war, it will be possible to put that knowledge to much more general use. Both nationally and internationally, through the Food and Agricultural Organization, the Government proposes, by research, education, improvement of marketing methods and facilities, and by such other means as are necessary, to foster the improvement of Canadian standards of nutrition up to a level worthy of so great a food producer.

VI. **Public Investment**

Government expenditures, like private expenditures, play an important part in determining the level of employment and income. In the circumstances of this war, they have become the dominant part. Viewed from one direction, the problem of the transition is to maintain the level of employment, while substituting private for a large part of public expenditures.

In relation to employment and income, government expenditures are of three sorts: (1) current expenditures for goods and services, whose amount has to be determined by the current need for government services and operations rather than varied according to the need for employment; (2) transfer payments, such as pensions, allowances and similar payments, which have their effect on employment as they re-appear as private expenditures; (3) public capital or investment expenditures for buildings, equipment, roads, airfields and other durable developments and improvements. The last are, to a degree, capable of being timed so as to contribute to employment as needed and supplement private expenditures and compensate for their fluctuations.

The post-war employment problem is not to be solved by huge expenditures on "public works". Efforts to increase and stabilize employment and income must pervade all economic policies. On the other

hand, it is the firm intention of the Government to institute a system of managing its capital expenditures so that they may contribute to the maximum to the improvement and stabilization of employment and income.

(a) *Public Investment in Stage 2 of the War*

It has not been possible during the war to accumulate a large "shelf" of ready-planned public projects. The war program has necessarily taken precedence and the engineering staffs of all governments have been denuded by war demands. Particularly has it been impossible to embark on the planning of new types of comprehensive projects of far-reaching extent. On the other hand, all governments, Dominion, provincial and municipal, have a considerable backlog of public projects of the normal sort for maintenance and expansion, which have been deferred during the war years. Some of these are fully planned and others are capable of rapid planning. Governments will wish to carry out these projects as soon as labour and materials are available once more.

Other demands on our labour and materials will limit severely the amount of public investment expenditures. As already emphasized, beyond the needs of the war in the Pacific, a higher importance will be attached to an increase in exports to some markets, to private investment for the conversion and expansion of industry, to housing, to some increase in consumption expenditures.

Accordingly, as an appropriate policy for this period, the Dominion proposes to press ahead with the planning of its own deferred works and invites provinces and municipalities to do the same.

In addition, the Dominion Government will give consideration to methods of stimulating provincial and municipal governments to carry out necessary surveys and draw the plans for useful public projects, in defined categories, to be executed when they are needed to stabilize employment, probably some time after the Japanese war has ended.

Further, the Dominion Government proposes to press ahead as rapidly as possible with surveys, aerial and other mapping, and explorations on the results of which a new and forward-looking agreed program for the development and conservation of natural resources must be built. The co-operation of the provincial governments and of the industries engaged in the use of our natural resources will be sought.

Beyond this, the Dominion will undertake its own deferred projects in those localities in which the decline of war contracts or other circumstances have made available labour, which can be employed on such projects and for which the locality gives promise of permanent employment. The Government will invite provincial and municipal governments to co-operate in following similar programs.

(b) *Public Investment Policy After the War*

The deliberate use of public investment expenditures as a permanent instrument in employment policy has to be undertaken experimentally. There is, as yet, no working model even in other countries. It will be necessary to frame policy to fit the facts of the Canadian economy and administer it in accordance with our federal constitution. The Government believes, however, that there will be wide agreement on making a substantial beginning along two lines:

(1) the undertaking of advance planning of all necessary and desirable Dominion projects so that there may be available a "shelf" of soundly planned projects, ready for execution when prospective employment conditions make it desirable to increase public investment expenditures. Since in the inter-war years the public investment expenditures of provincial and municipal governments have been much greater than those of the Dominion Government, it will be an essential part of such a policy that advance planning on the part of these governments should be encouraged, and, without interfering with provincial or municipal decisions in respect of the direction of their own expenditures, co-operation should be sought on the timing of such expenditures;

(2) the implementation, in co-operation with the Provinces, of a new Dominion policy of expenditures on the development and conservation of natural resources. In view of the rapid wartime depletion of natural resources, provision for such expenditures is urgent. While some of these expenditures must be continuous, a substantial portion of them may be varied according to employment and income levels. The resources of the farm, forest, mines, fisheries and rivers are basic to Canadian development and prudent expenditure on their conservation and development will be true investment expenditure yielding valuable returns. The returns will be greatly enhanced, if the development and conservation of the resources of particular areas can be co-ordinated.

Such expenditures would provide some measure of alternative income in the areas affected by declines in export markets, and thus would fight most of our depressions at the point of first contact rather than after they have spread through the economy. There is in the field of development and conservation the opportunity at appropriate times for genuine public investment which would induce more private investment and not supplant it.

Beginning on these two lines, the Dominion Government would seek to enlarge the scope of its public investment program as rapidly as experience could be acquired in its management and sound plans laid for the future. In undertaking this policy, the Dominion would not seek in any particular to limit the control of provinces over their own resources nor to divert any of the revenues to be derived from them.

These policies, which have vast constructive possibilities in this country, if boldly and prudently planned to meet Canadian problems, require for their full implementation, a new definition of financial arrangements between Dominion and Provinces, and cannot be undertaken in definite terms before the Dominion-Provincial Conference is held.

In the Yukon and Northwest Territories, the Dominion Government is solely responsible for policies governing the use, development and conservation of the natural resources. Improved transportation, wartime experience, scientific progress in the exploration of resources and the experience of other countries in the development of northern areas, all point to the great possibilities of properly planned development in these regions. The Government proposes to press forward vigorously in improving transportation to open up the various regions and in carrying out thorough and carefully planned scientific explorations and surveys. Further public expenditures will be undertaken as justified to develop and conserve the natural resources for the support of the present and additional population.

The amazing wartime advance of aviation, the large number of airfields constructed in Canada for military or civil use and the decisive significance which transportation has always had in Canadian development emphasize the importance which civil aviation will have as a productive field of public investment after the war. Already there has been considerable progress in the development of commercial aviation, but in terms of the future it is only a beginning. On both national and international commercial routes, and in the exploration, development and safeguarding of our natural resources, civil aviation will emerge as a great and, in the main, new Canadian employment. The Government proposes, through the Department of Reconstruction, the Air Transport Board, the Department of Transport and the Trans-Canada Airlines, to turn the great potentialities of civil aviation into realities as rapidly as possible and to do so within a planned pattern.

VII. Scientific and Industrial Research

The Government attaches the greatest importance to the expansion of scientific research in Dominion and other government laboratories, in the universities and within industry. In the past, Canadian industry and government have been far too dependent on sources outside the country for the results of research and there has been too little dissemination of technical knowledge. Scientific research has yielded during the war results of the greatest immediate and future significance. Applied to the problems of Canadian industry and resources, equal research effort can contribute enormously to the future employment and income of the Canadian people.

The Government proposes to continue and expand after the war the work of the National Research Council and co-ordinate it more closely and effectively with the research work of the universities, other government laboratories, and industry. By co-operative endeavour, the whole technical level of Canadian industry, both primary and secondary, must be raised.

In the immediate future, few, if any, research facilities can be released from war work. Through the medium of the Department of Reconstruction, however, definite steps have been taken:

- (1) to establish and operate a technical and scientific information service to make technical knowledge and the results of research available to industry, and particularly small industry, throughout Canada;
- (2) to arrange, wherever men and facilities are available, for research designed to assist special industrial and development projects;
- (3) to establish co-operation and co-ordination in long-term research programs.

To encourage the expansion of research by private industry, Parliament has made generous fiscal provisions for charging as current expenses or writing off over a period of years against taxable income all expenditure and investment made in research facilities.

VIII. Placement and Training of Workers

A high overall demand for labour will not of itself assure jobs for all. The kinds of work offering and the places where unfilled jobs exist will change with the seasons of the year and with the development of new consumer demands, new industries, new processes and new materials. There must, therefore, be a high degree of mobility of labour as between occupations, and between jobs and places. This is particularly true of such a country as Canada at its stage of development and with its climatic conditions. The attainment of the required mobility and adaptability will depend in large degree on the initiative and resourcefulness of the workers themselves.

During the war, highly important experience has been gained in the placement and training of workers. The Employment Offices and Placement Service, established under the Unemployment Insurance Act 1940, have been used, since 1942, under the direction of the Minister of Labour, for the administration of the National Selective Service program. Under difficult and exacting circumstances, a large and increasingly efficient organization has been built up. The restrictive regulations in force during the war will disappear as soon as they no longer serve a useful purpose, but the placement services and the forward planning in the employment of the labour force will be expanded in scope and improved in quality on the basis of wartime experience and post-war requirements.

The employment offices will be key institutions in the period of demobilization when, of necessity, there will be much transfer of workers and persons released from the Armed Forces. For that period, their work is being closely correlated with that of the Department of Veterans Affairs. After the war, the work of the employment offices will continue to be of essential importance in the carrying out of employment policies and in furnishing information on local and national employment.

During the war, the War Emergency Training Program, carried on jointly by the Dominion and the provinces, has played an essential part by providing trade training for service personnel and industrial training, both in schools and plants. In preparation for the transition to peace and to meet the requirements of peacetime training, the Vocational Education Co-ordination Act, 1942, was passed authorizing the Minister of Labour to conduct, in co-operation with the Provinces, or otherwise, training for, among others, persons discharged from the armed forces and persons whom the Unemployment Insurance Commission has directed to attend a course of training. The financial and other provisions for the re-establishment training of persons discharged from the Armed Services are already well known. The Minister and the Commission will use their authority actively in respect also of demobilized war workers who require training or re-training for satisfactory establishment in post-war industry.

To make possible the provision of adequate training facilities, the Government has authorized grants to the provinces under the Vocational Education Co-ordination Act of \$20,000,000 over a period of 10 years. In addition, it has authorized grants of a further \$10,000,000 over a period of three years to provide physical facilities for vocational training with particular reference to modern shop equipment.

Under the Unemployment Insurance Act, an insured person claiming benefit may be directed by the Commission to take a course of training. In order to distinguish such training from unemployment and to create greater inducement for individuals to take such training, the Government proposes to provide for payments during such approved training at higher rates than those paid as unemployment insurance benefits.

These measures will assist in attaining the necessary mobility and adaptability of workers. They must not be taken as offering a substitute in any way for the initiative and resourcefulness of the workers themselves.

IX. Wartime Controls

During the war, it has been necessary to impose many restrictive controls. The occasion for these controls has been acute scarcity—scarcity of manpower, materials, productive facilities, transport, foreign exchange, etc. Many of these controls have been exercised directly in the form of priorities, allocations or prohibitions in the use of labour or scarce

materials or facilities. Other controls such as price control, reinforced by fiscal policy, have been part of a general economic stabilization program designed to control inflation.

As war-time scarcities disappear, war-time controls will be relaxed and discontinued. As manpower, materials, productive capacity and transport become available in larger quantities, restrictive controls based on a condition of acute scarcity will become obsolete. It will be necessary, however, to be sure that the underlying condition has disappeared permanently before all the machinery of control is abandoned. In the period following the European war, when only a limited program of reconstruction can be begun, it will be the policy of the Government to relax controls over production, materials and manpower as rapidly as supplies justify. It is probable, however, that many such controls will continue to be needed for a time after the close of the European war to ensure the effective prosecution of the Japanese war and at the same time the provision of essential civilian needs. In addition, the maintenance of certain controls will aid in meeting the more urgent requirements of reconstruction, including the first steps in industrial re-conversion, the provision of more housing, and the development of export markets of a peacetime character.

The need for price control and other anti-inflationary measures will not disappear with the end of the European war. The magnitude of the expenditures required for the prosecution of the Japanese war and the continued claims on manpower will be such as to necessitate the continuance of the stabilization program, if both war and reconstruction programs are not to be jeopardized. Moreover, the accumulation of savings and the steady increase in deferred needs for some consumer goods and for a wide variety of durable goods (such as housing, household appliances, automobiles, highways, farm machinery and buildings, and peacetime industrial plant) will continue to set the background for price inflation until production of a civilian character can be expanded very materially. The store of buying power which individuals and corporations have accumulated during the war can be of great assistance in sustaining production and employment during the transition from war to peace. On the other hand, it could also be dissipated in a needless inflation, which would defeat orderly reconversion, if such buying power were permitted to run wild at a time when civilian production was still restricted and shortages and bottlenecks persisted.

The most severe inflationary pressure came immediately after the war of 1914-18 and not during it. The rise in prices after the last war was extremely sharp and this unfortunate inflation undoubtedly greatly accentuated the violent slump in prices which followed. The Government is determined to safeguard the stabilization program until its full benefits can be reaped in a smoother, more rapid transition to a prosperous peacetime economy. The stabilization program is a vital factor in maintaining the highest feasible level of employment during the transition, both in

the negative sense that it can prevent inflation with its inevitable deflationary consequences, and in the positive sense that prices must be kept at reasonable levels if a high volume of post-war production is to be achieved. High post-war employment can be based only on high production and an absolute essential in achieving this objective is to keep prices in hand during the transition. Canada's dependence on exports gives special emphasis to this need, both because of the obvious necessity of competing in external markets and because of the dependence of large sections of the domestic market on export income.

X. Government Finance

The broad proposals contained in this paper have for their object the maintenance of levels of employment and income greatly above those ruling before the war. These and other requirements will call for government expenditures and revenues at higher than pre-war levels. Nevertheless, they are consistent, in the Government's view, with post-war taxation at substantially lower levels than at present.

The national debt has necessarily increased greatly during the war, and in view of the expenditures associated with the termination of the war, with demobilization and re-establishment, it will not be possible to balance the budget immediately on the cessation of hostilities. Rigorous war taxation, the steady reduction in the rate of interest, acquisition of revenue-producing assets, and the rise in the national income have served to keep the cost of carrying the debt down to about the same relative weight it had in 1939. The relative burden after the war is likely to be little more than it was before the war, if income and employment can be maintained at high levels.

In these circumstances, the Government considers the post-war debt problem to be quite manageable. The Government will be prepared, in periods when unemployment threatens, to incur the deficits and increases in the national debt resulting from its employment and income policy, whether that policy in the circumstances is best applied through increased expenditures or reduced taxation. In periods of buoyant employment and income, budget plans will call for surpluses. The Government's policy will be to keep the national debt within manageable proportions, and maintain a proper balance in its budget over a period longer than a single year.

Fiscal policy during the war has necessarily been based on economic as much as purely financial consideration. It is proposed to extend that practice into the post-war years and apply war experience to the problems of peace.

XI. The Beginning of the Transition

The return to a civilian economy will be affected by the rate at which the armed services are brought back to Canada from overseas theatres and the rate at which military demobilization is undertaken.

The conversion of industry to peacetime uses will also be affected by the extent to which war production must be continued during Stage 2 of the war. In the light of these qualifying factors, steps have been taken to meet the first problems of re-conversion and expansion of industry and the re-employment of persons released from the armed services and war industry.

The transfer to civilian production of industry no longer required for war purposes involves both the settlement of war contracts and the clearing of plant. The Department of Munitions and Supply has determined rapid procedures to deal with any final re-negotiation of contracts and termination of war orders, so that civilian production, in plants no longer required for war purposes, may be proceeded with expeditiously and delays incidental to the settlement of war contracts and clearing of plants shall not impede the transition. In all cases, in which contractors have complete and up-to-date information on materials, costs, and production, substantial interim payments in settlement of contracts may be made within thirty days and final settlement should normally follow with reasonable rapidity.

Arrangements have been developed whereby full use of plant for civilian purposes may be achieved with a minimum of delay by clearing promptly from such plants government-owned equipment or materials which are not required for civilian production.

Arrangements are being made as speedily as possible for the disposition of government-owned plant, machine tools, equipment and other materials no longer required for war production to those who can use such facilities in civilian production. These facilities will be sold at fair prices and on reasonable terms in accordance with policy already enunciated. Special attention will be given to the needs of small industries for rental premises and for materials and equipment. The desirability of establishing industry in the smaller towns and cities and in areas in which there was, before the war, little industrialization, will also be taken into consideration.

The Government will have quantities of other types of materials available for disposal as surplus. A great deal of this, produced specifically for war purposes, will have little value or use in peacetime. In dealing with such as can be used to advantage for production purposes, general welfare, or consumer goods, the Government will make every effort to avoid all unnecessary waste and to dispose of them to the best economic advantage of Canada. Every effort will be made to see that goods intended for public consumption reach the public by the shortest possible route and that no speculation is involved. While the Government does not intend to enter into unfair competition with civilian business, it will seek to recover as much as possible for the taxpayers of the nation on these goods. At the same time, they will be disposed of in a manner designed to prevent speculation and to contribute to the general welfare and benefit of the Canadian people.

In the transition period, continuing needs for war production, together with the demand for civilian goods, both in Canada and abroad, will require, taking the country as a whole, all the labour and materials which can be made available. High employment on a nation-wide scale will continue. There will, however, be unavoidable dislocations and delays in some localities where wartime demands have necessitated heavy concentration of war orders and an abnormal wartime population. In these places, cancellation of war contracts will fall more heavily than elsewhere.

The Government, working in the first instance through the Department of Reconstruction, is making plans to meet these local situations. These plans include the speedy re-establishment and development of civilian industry in these areas. They will be supplemented, to the extent necessary and desirable by special attention to the field of housing and public works. Restrictions on house-building and other construction will be relaxed earlier than in other localities where employment is still at a high level; public works projects may be initiated in these areas as the occasion demands, even though it is not possible or desirable to proceed with similar works in other localities. Controls will be used to see that materials are available to carry out any special program designed to meet special local conditions. The co-operation of provincial and municipal authorities will be sought both as regards the preparation and the implementation of these plans.

XII. Summary

In this paper, the Government has stated unequivocally its adoption of a high and stable level of employment and income, and thereby higher standards of living, as a major aim of Government policy. It has been made clear that, if it is to be achieved, the endeavour to achieve it must pervade all government economic policy. It must be wholeheartedly accepted by all economic groups and organizations as a great national objective, transcending in importance all sectional and group interests.

This paper sets out the Reconstruction policies of the Government for the period beginning at the cessation of hostilities in Europe, and extending to the time when complete and final victory has been won in the Pacific. Those policies are set out concretely, though of necessity not in complete detail.

This paper also sketches the broad outline of long run permanent policies, to follow total and final victory on all fronts. Full implementation of long run policies must await the full release of manpower and resources from war. Permanent and mutually satisfactory financial and administrative arrangements with the Provincial governments are a necessary prelude to full implementation.

The Government of Canada will support international undertakings to establish a peace of good will, founded on sound economic grounds. No other peace can endure. A prosperous world is essential to a prosperous Canada.

During more than five years of war, Canada has continued to mobilize and expand its full productive capacity. Government, Labour and Management have been united together in the common objective of winning the war. The same united effort can win our post-war objectives. Canada looks to the future with confidence.

